Ambassador Richard Fisher
"Can Japan be Asia's Locomotive?"
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Thank you. I am very pleased to be here at the National Press Club today to speak about the future of Asia. This is a subject that has been a focus of attention in many circles in recent months, and it certainly has the attention of the world's leaders. In fact, measures to bring Asia out of its current economic predicament was a core subject at the OECD meeting last week and will be a focal point for discussion during the G-7 meeting to be held in Birmingham later this month.

Introduction

Can Japan be Asia's locomotive? The answer is **yes**. Japan not only **can** but **must** be the primary engine in Asia, or "Asia's locomotive" if you will, igniting growth and kindling stability in the region, thereby helping to bring Asia out of crisis and back into a period of strong economic performance and prosperity.

While certainly the major responsibility for overcoming the economic crisis in Asia rests with the affected countries themselves, all major industrialized nations have a responsibility to promote balanced growth in their own economies to support the return of financial stability globally and to help accommodate transitional trade imbalances in crisis-affected countries. All members of the OECD agreed at their meeting last week in Paris, that they should contribute to the Asian recovery with policies that sustain growth and domestic demand, and further open markets.

U.S. Interests

Over the last several years, the policies pursued by the United States have produced lower budget deficits, lower interest rates, low inflation, and strong growth. Abroad, we have been a champion of a stronger world commitment to free trade. All of these efforts have contributed significantly to world economic growth.

Recent U.S. prosperity is, in part, a direct result of our growing number of exports around the world. As measured in imports and exports, trade in 1970 was valued at about 13 percent of the U.S. GDP. In 1998, the estimated value of our trade has reached a value of more than 30 percent of the United States' economic activity. Export-related jobs currently employ an estimated 12.1 million Americans. Exports not only expand our economy and employ Americans, but create better paying jobs. Estimates put wages of employment supported by goods exports at a rate of 13-16 percent higher than the U.S. national average wage.

Moreover, as more and more Americans invest their savings and retirement funds in equity mutual funds -- there are some 65 and a half million Americans invested in them today -- the financial security of the typical American household is increasingly tied to ever-expanding markets for the output of American goods and services. 65 and a half million Americans have invested their 401K, IRA, and other retirement funds in mutual funds investing in stocks, with the expectation that their profits will grow. To grow those profits, markets must continue to expand.

The Asian market includes half of the world's population and, until very recently, some of its fastest-growing economies. We export more to Asia than we do to Europe, and in 1997, exports to Asia accounted for 28 percent of total U.S. exports. To some U.S. states, such as California, Oregon, and Washington where more than 50 percent of exports are to Asia, trade with the region is a very key part of economic prosperity.

By these statistics alone, it is obvious that the stability and prosperity of Asian economies is vital to the security of our own. While, to date the Asian financial crisis' impact on our country has been moderate and manageable, a deepening of this crisis could have profound effects in the U.S. as well as the rest of the world. Equally importantly, failure to get these economies back on their feet could have a serious destablilizing effect in the region.

While critical U.S. economic and national security interests are integrally tied to a stable and economically vital Asia, the U.S. cannot be the only engine of global growth or the sole buyer of goods that Asian countries need to help revive their economies.

The Role of Japan

As, the second largest economy in the world, Asia's biggest market and largest source of capital, and the key U.S. military ally in the region, Japan has a critical role to play as a driving force for an economic turn-around in the Asian region. Japan, itself, also has much to gain by guiding Asia back to a prosperous future. Certainly a weak Japan poses a danger for spreading further weakness in the region and beyond. A strong Japan, however, will provide fuel for Asian economies as well as strength for the rest of the world.

World leaders look to Japan for quick, decisive action in this time of crisis. It has become increasingly obvious over recent months that it is imperative that Japan undertake immediate measures to stimulate its economy and promote demand-led growth to provide a viable market for goods coming from surrounding countries.

We must not forget, however, that it is equally important that Japanese leaders put comparable effort into meaningful structural changes to bring about a long-term solution to the problems that have besieged Asia, and Japan in particular, in recent months.

In sum, Japan must undertake significant measures to resolve its financial problems, strengthen domestic demand, and deregulate its economy and open up its economy to imports.

The Japanese Economy

With Japan in its 7th year of recession, some have voiced serious concerns that the Japanese economy is not up to the task of supporting Asian economies in an attempt to regain their strength. Japan's real GDP grew at less than 1% in 1997, and during the first quarter of this year, most forecasters predicted near zero to negative growth for the Japanese economy in 1998. The current unemployment rate represents a post-war high for Japan.

At the same time, Japan's current account surplus rose sharply last year to $95 billion -- 2.3 percent of Japan's GDP -- a 30 percent increase over the year before. The surplus is expected to rise again this year, although more slowly due to dampened Asian demand.

Bilaterally, the U.S. trade deficit with Japan is also noticeably widening. The trade deficit, which totaled $48 billion in 1996, climbed to $56 billion in 1998. According to the most recent U.S. government figures available, the U.S. trade deficit with Japan over the first two months of this year reached $9.6 billion -- up 12.8 percent over the same period a year ago. Over this time period, U.S. exports to Japan dropped 7.6 percent. It is expected that this trend will continue. This will likely bring increased scrutiny of our trade relationship with Japan within the U.S. and could lead to unfortunate, protectionist political action if left unaddressed.

Despite this "bad news," there is tremendous confidence both within Japan and around the world that, with the proper measures, Japan can overcome these problems and be the main engine of growth in the region.

An April 22nd poll conducted by CNBC Business News Network in conjunction with the Hong Kong-based weekly Far Eastern Economic Review showed that 83 percent of Asian businessman believe that Japan could do more to revive its sluggish economy. More significantly, the number of Japanese business leaders supporting that view was a whopping 96 percent.

I think that Japan has now begun to get the message that more radical, meaningful measures are needed to stimulate not only Japan's own economy, but reestablish confidence, stability, and growth in Asia as well as the global economy.

The New Japanese Fiscal Stimulus Package

A little over a week ago, Prime Minister Hashimoto announced a new fiscal stimulus package totaling more than $130 billion -- the largest in Japanese history. About 28 percent of the package consists of tax cuts. And while the plan does not include permanent tax cuts, it does repeat a promise to cut corporate taxes and leaves open the possibility of a permanent income tax cut.

Forty six percent of the total package will go toward public works projects. While the preliminary plan announced a few weeks ago called for a public works spending boost of 6 trillion yen, the final package announced by the Prime Minister goes even further, calling for a total of 7.7 trillion yen.

Further, of note, the package includes a meaningful plan to encourage securitization and sale of bad bank loans. In addition, the package indicates that the Fiscal Reconstruction law will be revised and, as a result, the target year for reduction of the Japanese Government debt to 3 percent of GDP will move from Fiscal Year 2003 to 2005.

Immediately after the stimulus package was released, Economic Planning Agency Minister Koji Omi asserted that the package will boost GDP by 2 percent in Fiscal Year 1998. Others predictions were not as optimistic but were somewhat higher than their previous forecasts of near zero growth.

We, and I am speaking not only for USTR, but the U.S. Government generally, believe that this represents a positive step forward for Japan, and we urge the Japanese Government to move forward quickly to put these new measures into place.

But to reiterate a point that USTR, the U.S. Treasury and President Clinton have been making for a long time, fiscal stimulus is not enough. Japan must complement this with more significant and meaningful measures to deregulate and open up its economy. The Clinton Administration believes that fiscal stimulus is a necessary but insufficient condition for Japanese recovery: it will only succeed in stimulating healthy growth if it is accompanied hand-in-glove with deregulation and effective market-opening measures.

Need For Deregulation

In a January editorial, Japan's Ambassador to the United States, Kunihiko Saito, wrote:

> "We recognize that the old ways that achieved so much since the war are incapable of taking us further. The world has changed and so must we. Japan genuinely wants an economy open to imports. This isn't something to do grudgingly under pressure. As 1998 dawns, we realize it is the only way to survive in a global economy."

A new approach to market opening is what Japan needs; it is what we need; and it is what Japan's Asian neighbors need in this year of crisis.

Not only do we hope to see an equal contribution from Japan to Asia's economic recovery and a Japan more open to American goods and services, as well as Asian exports, we also hope -- indeed, we need -- to enter the next century with a strong, prosperous, dynamic Japan as a strategic partner.

Deregulation is a key part of each of those goals. First and foremost, it is the key to our hope for a strong Japanese economy that can lead Asia out of crisis. In the recently released 1998 World Competitiveness Yearbook, which assesses and ranks how well countries support an environment which promotes competitive enterprise within their borders, Japan ranked only 18th for overall competitiveness -- a 9-place drop from last year. This is even more remarkable since, just five years ago, the Yearbook ranked Japan second only to the U.S. in world competitiveness. The 1998 report cites the "complete disarray" of the Japanese economy for the significant drop from last year. Over-regulation is one key factor in this evaluation. In fact, the 1996 Competitiveness report ranked Japan 35th globally in terms of bureaucratic interference and government obstruction in the market place.

Other similar reports by highly respected international organizations also clearly show the need for change in Japan. This January, for example, the WTO conducted a comprehensive review of Japan's trade policies. Again, one of the key themes highlighted in this review was that Japan should undertake urgent and meaningful deregulation of its economy and implement structural reform.

To give a couple of concrete examples of the kinds of reform we are talking about:

-- Telecommunications rates in Japan are up to 74 percent higher than the OECD average.

-- Electric power rates in Japan are more than 20 percent higher than those in the U.S. and other industrialized nations in Western Europe.

-- In food processing and textiles, Japanese productivity is only about one-third of US levels.

Japan's Economic Planning Agency estimates that deregulation in eight key sectors, including finance, telecommunications, transportation, distribution, energy, housing, health, and labor, could add 0.9 percent annually to Japan's GNP over the coming five years. And the Ministry of International Trade and Industry (MITI) estimates that deregulation in five key sectors could generate 39 trillion yen in fresh investment and increase the real income of consumers by 370,000 yen per household over the same period.

At the very top level of government, Prime Minister Hashimoto has repeatedly stressed the importance of deregulation. Early this year, he stated:

> "At a time when the overall administration is experiencing systemic fatigue, it is vitally important to carry out reform by easing and lifting regulations."

So our policy goals, for the Asian crisis and for bilateral trade, are consistent with those of Japan's opinion leaders and Japan's government. And our experience at home shows that the agenda we and Japan have put forward is realistic and will get results.

The U.S. Experience

The U.S. economy has enjoyed significant economic growth and low unemployment, inflation, interest rates for an extended period of time. We believe that is, in part, due to deregulatory measures taken in the past.

A 1997 study by two noted regulatory economists clearly document the historical benefits of deregulation in the U.S. Their analysis of five major network industries that have undergone deregulation in the U.S. (natural gas, telecommunications, airlines, trucking, and railroads) shows that within the first two years of deregulation, prices fell by 4-15 percent. Within 10 years, prices were at least 25 percent lower, and sometimes close to half their earlier prices. At the same time, overall, service quality improved. Reform generated genuine gains for consumers and society as a whole, and customers were presented with more choices.

Deregulation has provided substantial benefits to the U.S. economy and it can do the same for Japan.

Deregulation Initiative

That is the background of our bilateral deregulation initiative with Japan. In June of last year, President Clinton and Prime Minister Hashimoto jointly committed to the "U.S.-Japan Enhanced Initiative on Deregulation and Competition Policy," or the so-called "Enhanced Initiative."

Its broad objectives are to enhance consumers' choices, lower prices, increase efficiency and promote economic activity. Over the past year we have acted through five working groups: housing, financial services, telecommunications, deregulation and competition policy. And their progress since last June will be a focus of bilateral discussions between President Clinton and Prime Minister Hashimoto at next month's G-7 meeting in Birmingham, England.

Success in these areas will help fulfil Prime Minister Hashimoto's stated objective of fundamentally restructuring the Japanese economy.

Japan's New Deregulation Program

We have made some headway towards this important goal. In March of this year, the Government of Japan announced a new 3-year deregulation program. This new program included many issues we have discussed under the Enhanced Initiative -- telecommunications, housing, financial services, medical devices an pharmaceuticals, competition policy, distribution, legal services, and regulatory transparency.

Yet despite some positive initial steps, the newly-announced deregulation program fell short of U.S. expectations in several key areas. Let me give you a couple of specific examples:

-- In telecommunications, Japan needs to lower the high rates NTT charges competitors for access to its network--rates three to five times higher than those in more competitive overseas markets.

-- In the housing realm, in order to improve quality, affordability, and availability Japan needs to eliminate tariffs on wood product imports, resolve issues that impede American style 2x4 construction in Japan, and consult with international experts to ensure that the Building Standards Law is user-friendly and consistent with international practices.

-- In terms of medical devices and pharmaceuticals, Japan should expedite the new drug application approval process and provide appropriate incentives for introducing new drugs allowing Japanese patients quick access to new, safe, and life-saving medical devices and medicines.

-- I would also like to add that aggressive enforcement of the Anti-Monopoly Law (or "AML") is a critical complement to deregulation. As markets deregulate, firms often try to "reregulate" by engaging in anticompetitive practices to thwart new competition. AML enforcement in Japan severely lags behind the United States and we are pressing them to modernize it.

-- Further, our deregulation experience shows that the process needs to be open to public scrutiny. Those affected by regulatory changes need the opportunity to provide input. This is what is meant by "transparency;" we believe increased transparency in Japanese procedures and rule-setting will assist greatly in opening up the Japanese market.

Japanese Views

The U.S. Government is not by any means alone in its reservations; nor in its hopes that the Government of Japan can undertake more radical deregulation in a shorter period of time. In fact, the voices from within Japan --including Diet members, bureaucrats, academics, and journalists --have often, in recent months, been louder and more insistent than ours.

The Tokyo Shimbun, for example, has opined that:

> "We can hardly say that what the government has done is sufficient. It will now be necessary to broaden the scope of deregulation more than ever and promote deregulatory measures."

Likewise, a Nikkei editorial urged the Government of Japan to make the new 3-year plan more productive and beneficial for the citizens of Japan. And Economic Planning Agency head, Koji Omi, has stated that:

> "bold deregulation is urgently needed for creating new demand and expanding

employment... (as such) the main role of government should be to provide a more flexible and freer system for private business activities and to promote competition through deregulation.

Lead up to Birmingham

I recently returned from a trip to Paris where I met with my Japanese counterparts to discuss deregulation and pushing for a more meaningful set of measures for President Clinton and Prime Minister Hashimoto to bless at the G-7 summit later this month.

We made some progress at that meeting. In Paris, Japan committed to shorten the approval processing period for new drug applications in order to speed the introduction of innovative new pharmaceuticals, particularly for priority drugs, and to take measures to facilitate acceptance of foreign clincial test data for foreign medical devices and pharmaceuticals.

We also made progress on housing issues, such that Japan will take measures to allow engineered wood products greater access to the Japanese market.

Still, there are a number of key deregulation items which need resolution prior to the Birmingham summit. In particular, we are seeking additional measures from Japan to address interconnection rates for telecommunications, the system for pricing of pharmaceuticals, and greater transparency in reform of regulations of Japan’s retail distribution sector.

We understand that there is a deep-seated fear in Japan that deregulation, if undertaken too quickly and too completely, will destabilize some unique features of Japanese society, such as life-time employment, which brought Japan much stability in the post-war era.

While there are social costs to deregulation as inefficient companies are streamlined and new industries are born, the U.S. knows from firsthand experience that deregulation can and will also promote long-term growth. And the cost of delay --in bilateral trade disputes, in Japan’s own economic future, and in the potential for worsening the Asian financial crisis--is too high to pay. Overall, aggressive deregulation will serve as a catalyst for Asia’s economic recovery by encouraging domestic industries and service providers to become more efficient as well as fueling domestic growth.

Conclusion

In closing, I would like to say that both the U.S. and Japan have a significant stake in the result of this crisis with which we are faced. Both countries also have a key role to play in bringing about a desirable outcome.

The U.S. Government will continue to pursue an aggressive agenda for U.S. engagement in Asia through the two-fold strategy of financial stabilization and broad, structural market-opening reforms. We know that deregulation, transparency, and true competition must be pursued with equal vigor as we seek financial stabilization in the region.

I believe that Japan's adoption of effective measures to resolve its financial problems, strengthen domestic demand, and deregulate its economy, will provide a win-win-win opportunity for Japan, the U.S. and the global economy. By reforming its own economy, Japan will once again play the role re expect of the world's second largest economy asnan engine for Asian economic growth.